

PRESIDENT'S ADVISORY COMMITTEE FOR
TRADE POLICY AND NEGOTIATIONS

**RECOMMENDATIONS ON REAUTHORIZATION OF THE OVERSEAS PRIVATE
INVESTMENT CORPORATION AND THE EXPORT-IMPORT BANK OF
THE UNITED STATES**

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The Overseas Private Investment Corporation (OPIC) and the Export-Import Bank of the United States (Eximbank) are vital tools for American corporations and workers in the fierce competition for international markets. Despite decades of achievement by OPIC and Eximbank, both agencies are under attack as “corporate welfare.” OPIC’s and Eximbank’s statutory authorities will expire later this year absent affirmative Congressional action. The President’s Advisory Committee for Trade Policy and Negotiations (ACTPN) applauds the Clinton Administration’s continuing efforts to save these competitive tools. The ACTPN urges the Administration to redouble these efforts, on all fronts, in order to ensure a multi-year reauthorization with adequate funding to continue the highly effective programs of OPIC and Eximbank.

I. Summary Descriptions of the OPIC and Eximbank Programs

A. **OPIC**

OPIC, a government corporation established in 1971, provides loan guarantees, direct loans, and political risk insurance for private sector development in less developed countries and emerging markets. A pioneer in the development of project finance as a tool for the deployment of private capital in the development of infrastructure projects overseas, OPIC has returned a profit to the U.S. Treasury in every year of its existence. The OPIC programs have successfully performed a variety of functions over its twenty-five year history: helping America compete in emerging markets; supporting American jobs and exports; supporting U.S. foreign policy initiatives throughout the developing world; and operating on a self-sustaining basis at no cost to taxpayers.

B. **Eximbank**

Eximbank is an independent U.S. agency that helps finance the overseas sales of U.S. goods and services. Over more than six decades of existence, Eximbank has supported more than \$300 billion in U.S. exports. Eximbank finances U.S. exports through a variety of loan, guarantee and insurance programs. In so doing, Eximbank supports almost 200,000 U.S. jobs directly, and hundreds of thousands of U.S. jobs indirectly each year.

II. The Attack On OPIC and Eximbank

In the 104th Congress, OPIC's charter came due for renewal, and was pulled into a larger debate on the appropriate role of government export promotion programs, and of the propriety of "corporate welfare," a much-used but not precisely defined term. While a multi-year reauthorization of OPIC was cleared by the committees of jurisdiction in the House of Representatives, the reauthorization initiative failed by an overwhelming margin in a floor vote. OPIC was given a one-year reprieve at the very end of the Congress, via the appropriations process, but the debate has resumed in full force in 1997. OPIC's charter is thus again up for renewal in 1997. Eximbank's statutory authority will also lapse in the Fall of 1997 unless Congress renews its charter. While the prospects for Eximbank in the Congress are marginally better than for OPIC, Eximbank has also been subject to many of the same attacks.

III. Support of U.S. Jobs

The services provided by OPIC and Eximbank lead directly to numerous exports of U.S. goods and services, and to the support of highly skilled, high-wage U.S.-based jobs. For example, a recent study¹ demonstrated that, in the electric power sector alone, projects supported by OPIC and/or Eximbank generate over 20,000 high-paying U.S. jobs per billion dollars of exports. Based on forecasts of global power needs in key emerging markets, that figure translates into the potential for supporting between 118,000 and 361,000 U.S. jobs per year for the next fifteen years² -- again, in the power sector alone. OPIC and Eximbank will help U.S. firms and workers win these business opportunities. Without OPIC and Eximbank, foreign competitors will have an advantage. The ACTPN accordingly strongly supports a multi-year reauthorization for both agencies.

IV. Why the Arguments Against OPIC and Eximbank Are Misguided

In prior years, the legislative debate on OPIC and Eximbank focused on the appropriate level of funding and number of years of authorization for the programs, a debate that was informed by an assessment of both the opportunities in the international marketplace, and by what "the competition" (i.e. foreign export credit agencies (ECAs)) was doing to pursue those opportunities. In that regard, the United States has always ranked among the lowest in the level of ECA financing among the G-7 countries. Indeed, the gap between the level of support for trade

¹ Competing For Global Power Projects: A White Paper on the Role of the Export-Import Bank of the United States and the Overseas Private Investment Corporation in the Global Electric Power Business (1997), prepared on behalf of the International Energy Development Council by Boston-Pacific Company, Inc.

² Ibid.

promotion between the United States and our major G-7 trading partners continues to widen across the board. In 1996, for example, the U.S. spent three cents per \$1000 GDP on non-financing export promotion. By contrast, Canada spent \$33 and France spent \$18 per \$1000 GDP.

Last year and in the current Congress, the debate has centered not on the appropriate degree of support, but on whether these agencies ought to exist at all. In that regard, a variety of new arguments have been used against OPIC and Eximbank in the past two years. We have attempted to summarize and rebut these arguments.

A. Argument: The OPIC and Eximbank Programs Are “Corporate Welfare”

Rebuttal: Clients of OPIC and Eximbank pay full freight for all the services they use. Both the financing support and political risk insurance coverage offered by these agencies are “priced to risk,” based on an exhaustive assessment of the project, its developers and the country in which the project is proposed. The services offered often cost more than comparable private sector products. In the case of OPIC, the agency has actually turned a profit in every one of its twenty-five years. Eximbank, for its part, returns approximately \$16 worth of exports for every dollar appropriated to the agency.

B. Argument: OPIC and Eximbank Service Only Large Corporations

Rebuttal: The primary beneficiaries of the OPIC and Eximbank programs are small businesses. For example, 81% of Eximbank’s transactions in 1996 were with small businesses. For large projects, the central U.S. benefit of OPIC or Eximbank participation is securing the “big-ticket” items in those projects (the turbine sale, the engineering and construction contract, etc.) for U.S. firms, who in turn subcontract for the component parts of those contracts. In the electric power sector, for example, approximately 60% of the suppliers are small or medium size firms (under 500 employees).³ The empirical data suggest that those benefits are spread throughout the United States. Typically, a *single* electric power project will result in procurement and job creations in twenty to thirty states.

C. Argument: The OPIC and Eximbank Portfolios Constitute A Looming Contingent Liability Akin to the S&L Crisis of the 1980s

Rebuttal: Both OPIC and Eximbank have operated in a healthy and prudent manner. OPIC has paid or settled claims totaling only \$515 million in its entire twenty-five year history, all but \$11 million of which has been recovered by the agency (a recovery rate of 98%). Eximbank’s loan losses amounted to \$2.4 billion out of \$126 billion in exports over the past seventeen years (a loan loss ratio of 1.9%). By contrast, the loan loss ratio of commercial banks is 6% on loans to foreign governments, and 3.3% on loans to private borrowers.

³ Ibid.

The “looming S&L crisis” scenario also presumes something in the nature of a dramatic economic downturn occurring simultaneously in all or most of the countries in which OPIC and Eximbank are open for business. While the failure of one or more projects in a particular country, or even of several projects in a country or region, is possible, these agencies’ regional and sectoral depth operate as a natural hedge against the spiraling sort of crisis suggested in this line of criticism. Finally, both OPIC and Eximbank are subject to the federal credit reform legislation that was enacted after the S&L difficulties of the 1980s.

D. Argument: OPIC and Eximbank Compete With the Private Sector

Rebuttal: Eximbank is barred by statute from competing with private capital, and by law must “supplement and encourage” private capital; OPIC’s statute encourages cooperation with private insurers. Their appropriate role is as catalysts, forging the way for the creation of commercial alternatives once countries reach a level of economic development where OPIC or Eximbank assistance is no longer required. In general, they have worked well with the private sector, but they can and should do more to support private sector initiatives in this area.

V. Conclusion

The ACTPN applauds the Administration’s efforts in support of a multi-year reauthorization of OPIC and Eximbank, and urges it to continue its efforts during this critical stage of the legislative process. The OPIC and Eximbank programs promote exports, support jobs throughout the United States, and are necessary tools in America’s quest for competitive advantage in the burgeoning overseas markets.